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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA COMMISSION FOR
THE BLIND

AGENCY

JULY 1, 1993 - JUNE 30, 1995

DATE

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State Budget and Control Board
OFFICE OF GENERAL SERVICES



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RAYMOND L. GRANT
ASSISTANT DIRECTOR

April 1, 1996

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

Ms. Helen T. Zeigler, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the final audit report for the Commission for the Blind. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

Raymond L. Grant
Materials Management Officer

SOUTH CAROLINA COMMISSION FOR THE BLIND

PROCUREMENT AUDIT REPORT

JULY 1, 1993 - JUNE 30, 1995

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NOTE: The Commission's response to issues noted in the report have been inserted immediately following the issues they refer to.

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

December 13, 1995

Mr. Raymond L. Grant
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have examined the procurement policies and procedures of the South Carolina Commission for the Blind for the period July 1, 1993 through June 30, 1995. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Commission's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Commission for the Blind is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss

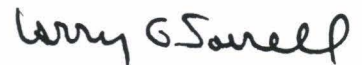
from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Commission for the Blind in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Commission for the Blind. Our on-site review was conducted June 26 - July 21, 1995, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Commission for the Blind and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period July 1, 1993 through June 30, 1995, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1993 through March 31, 1995
- (2) Procurement transactions for the period July 1, 1993 through June 30, 1995 as follows:
 - a) 90 payments, each exceeding \$1,500
 - b) A block sample of purchase orders filed by vendor
- (3) Minority Business Enterprise Plans and reports for the audit period
- (4) Information Technology Plans for fiscal years 92/93, 93/94 & 94/95
- (5) Internal procurement procedures manual
- (6) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Commission for the Blind, hereinafter referred to as the Commission, produced findings and recommendations as follow:

	<u>PAGE</u>
I. <u>General Procurement Activity</u>	
A. <u>Unauthorized Procurements</u>	7
Three procurements were unauthorized either because they exceeded the Commission's authority or were made by someone without requisite authority.	
B. <u>Procurements With Insufficient Competition</u>	8
Three procurements had no evidence of competition and one procurement only had two solicitations whereas three were required.	
C. <u>Low Bidder Improperly Rejected</u>	8
The Commission rejected a low bidder without any documentation to support the decision.	
D. <u>Purchase Order Improperly Amended</u>	9
The Commission amended a purchase order for a sole source contract and did not report the \$19,000 increase to the Office of General Services. We believe this amendment should have been handled as a separate procurement.	
E. <u>Internal Controls</u>	10
Three payments were made by accounts payable which did not conform to the policies of the Commission.	
II. <u>Repair Service Contract Needed</u>	11
Over the most recently completed fiscal year, the Commission paid one vendor \$19,047 without securing any competition to repair primarily ice machines and refrigerators. This is a repeat finding from our last audit report.	

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III. Information Technology Plans Not Approved

11

The Commission failed to receive approval of their information technology plans as required by the annual appropriations acts.

IV. Minority Business Enterprise Reports Submitted Late

12

Six out of eleven minority business enterprise quarterly reports were not submitted in a timely manner.

RESULTS OF EXAMINATION

I. General Procurement Activity

We tested 90 payment transactions and the associated procurements as well as performed other tests as deemed necessary for compliance to the Procurement Code and internal policies and procedures of the Commission. Our testing revealed the following.

A. Unauthorized Procurements

We noted three procurements which were unauthorized either because the transactions exceeded the procurement authority of the Commission or the transactions were made by individuals without requisite authority.

Item	Document Reference	Description	Amount
1.	PO 56487	Construct shelves	\$5,992
2.	Voucher 91	Kitchen design and consulting fee	2,193
3.	Voucher 2056	Membership dues	2,046

For the shelves on PO 56487, the Commission solicited a contract earlier in which the awarded vendor backed out leaving very little time for the services to be performed. None of the other bidders solicited for this job offered a quote. With time now being a critical factor, the Commission solicited a bidder and awarded the contract. Purchase order 56487 was issued in the amount of \$4,517 originally. However, a change order was later issued increasing the contract to \$5,992 which was over the Commission's procurement authority of \$5,000. An emergency procurement determination may have been appropriate making the transaction authorized. However, the Commission did not utilize the emergency procurement method.

The kitchen design and consulting fee on voucher 91 were actually architect and/or engineer services which were required to be approved by the State Engineer. We were not provided with the approval for this contract. Since this approval was not obtained, the contract was unauthorized.

The last item listed for membership dues was not approved by someone with procurement authority, thus making it unauthorized.

We recommend ratification be requested on these transactions in accordance to Regulation 19-445.2015. Items 1 and 2 must be ratified by the Materials Management

Officer as each exceeded the Commission's procurement authority. Item 3 must be ratified by the Commissioner.

Commission Response

The Commission agrees with your recommendation.

B. Procurements With Insufficient Competition

We noted the following four procurements that were not supported by the appropriate level of solicitations of competition, sole source or emergency procurement determinations.

<u>PO</u>	<u>Description</u>	<u>Amount</u>
52629	Software for server	\$3,145
41710	Meals & Snacks for 300	2,315
51765	Braille printer & software	2,040
41522	Merchandise refrigerator	1,818

The first three purchase orders had no evidence of solicitations of competition. Purchase order 41522 only had two verbal solicitations of competition whereas three were required. Section 11-35-1550 of the Procurement Code outlines the small purchase solicitation requirements. For procurements between \$ 1,500 and \$5,000, verbal solicitations of competition from at least three vendors are required.

We recommend the Commission adhere to this section of the Code or attach sole source or emergency procurement determinations, if appropriate.

Commission Response

The Commission agrees with your recommendation and will ensure that the appropriate level of solicitation of competition are sought and documented.

C. Low Bidder Improperly Rejected

The Commission awarded purchase order 50181 in the amount of \$2,500 for the production of a video. However, the vendor who was awarded the contract was not the low bidder. The low bidder who offered a price of \$1,000 was rejected. We did not find any documentation to support this action. Since a quotation was solicited from the vendor by the Commission, we must believe the Commission considered that the rejected vendor was qualified to perform the service.

Section 11-35-1710 of the Code states in part, "The reasons for rejection, supported with documentation sufficient to satisfy external audit, shall be made a part of the contract file." No such documentation was available.

We recommend, when bidders are rejected, that sufficient documentation justifying such actions be made a part of the procurement file. Otherwise, low bidders should not be rejected.

Commission Response

The Commission agrees with this recommendation and will ensure that sufficient documentation justifying such actions is included in the procurement file. We have documented our file. The Commission's reason for rejection of the lowest bidder is that this bid solicitation was based upon the Communication Director's recognition of prevailing market rates for a video production of this nature. While the low bidder listed a figure of \$1,000, when compared to market rates, media research and publication requirements, this quote would have been a low value production of a video. The Commission's expectation was far greater. Another justification for rejection is that the other two bids, considered along with the low bidder, both reflected the prevailing market value and the expertise for production work necessary to complete a project of this magnitude. The handling of the video production required a process with the least amount of interruption in the daily activities of our blind licensed vendors, as the vending stand operation is income generating for the blind. Previous news gathering knowledge was essential in that the bidder had to know how to ask the salient questions that would produce responses necessary for completion of the video.

D. Purchase Order Improperly Amended

The Commission awarded purchase order 33769 in the amount of \$38,000 for a camp as a sole source according to Commission personnel. However, we could not find evidence supporting that the sole source was properly authorized and reported as required by the Code. Furthermore, approximately one year later, the Commission prepared a change order and added \$19,000 to this contract. The Commission also failed to report the \$19,000 in accordance to Section 11-35-2440 of the Code. Because this increase was not part of the original contract, we believe it should have been processed as a separate transaction, thus requiring a sole source determination.

We recommend the Commission prepare determinations for each sole source procurement. The Commission needs to implement procedures that will assure accurate reporting of each sole source transaction.

Commission Response

The Commission agrees with this recommendation. The Procurement Director will develop and implement procedures to assure accurate reporting of all sole source transactions.

E. Internal Controls

We noted the following three payments that were not made in accordance to written policies of the Commission.

<u>Voucher</u>	<u>Description</u>	<u>Amount</u>	<u>Payment Variance from PO</u>	<u>Description of Variance</u>
1170	Braille Equipment	\$2,075	\$ 35	Shipping
2237	Temporary services	1,840	233	Over PO
5498	Temporary	1,545	537	Over PO

The Commission's manual defines a change order as being a condition which alters or changes the conditions and/or terms of a purchase. We consider freight to be such a condition that alters the terms of a purchase. Our position is based on the fact that freight is considered in determining awards and procurements are awarded with stipulated freight terms. The shipping charges paid above should not have been paid unless it was authorized by a change order.

The Commission's manual in the section for payment for goods or services requires that invoices reflect the actual line item number, quantity shipped, description of material, unit cost per item and extended cost per item before invoices are paid. The manual does allow for a payment tolerance not to exceed 10 percent of the purchase up to \$100 in amount. The amounts cited above for the temporary services exceeded the maximum amount not to exceed of \$100 and, therefore, should not have been paid without a written change order from the Procurement Department.

We recommend the Commission adhere to its own requirements.

Commission Response

The Commission agrees with this recommendation. As part of the resolution process to the procurement audit, the Commission formed an audit team to address the issues cited in the report. One of the members of the audit team was the Senior Accountant, who supervises the Accounts Payable Section of Finance. She has met with the staff of the Accounts Payable Section and addressed the procedures for handling change orders

involving freight charges. In addition, the Controller is currently developing a financial policies and procedures manual which will address this matter. Each accounting staff member will receive training on the contents and a copy of the manual.

II. Repair Service Contract Needed

On our last audit, we addressed the need for a repair service contract on the concession stand equipment such as ice machines, refrigerators and other equipment. Our current audit revealed the Commission paid \$19,047 to one vendor from the period September 23, 1994 to July 19, 1995 primarily for repairs to ice machines and refrigerators at concession stands without any competition being solicited. Each procurement to the vendor, by itself, would not have required competition due to each transaction being less than \$1,500. However, when viewed over time, it is clear that the services needed and the associated cost can be easily estimated lending itself to a repair service contract. A contract would also eliminate another problem associated with this transaction as purchase orders were issued after the invoices were received. This practice is a violation of internal policy. The Procurement Office has no involvement in the authorization of these transactions. A competed contract would also remove the appearance of favored vendor status that appears to exist.

We recommend the Commission identify such situations as noted above and establish contracts accordingly. On our follow up for the last audit, the Commission was working to accomplish the recommendation, however the action was not completed. We expect this recommendation to be implemented.

Commission Response

The Commission agrees that a bid package is needed for the repair service contract on the concession stand equipment. The Commission will confer with the Materials Management Office in the development of this bid package. The Procurement Director has researched the areas of small appliance, plumbing and refrigeration repairs. Additionally, he has explored whether these services can be provided on a regional basis. The Procurement Director will complete the specifications for a repair services contract by April 12, 1996.

III. Information Technology Plans Not Approved

The Commission failed to obtain approval of the information technology plans from the Office of Research and Statistics of the Budget and Control Board as required by the

annual Appropriations Act. We requested to see the approval letters for those plans covering the audit period. In doing so we learned that only the fiscal year 1993/94 plan had been approved. The plans for fiscal year 1992/93 and 1994/95, as well as the plan covering July 1, 1995 through June 30, 1998, were not approved.

We recommend the Commission comply with the requirement of the annual Appropriations Act to have the information technology plans approved by the Office of Research and Statistics of the Budget and Control Board.

Commission Response

The Director of Management Information of the Commission has consulted with the Director of the Division of Information Technology and Planning - Budget and Control Board. The Director advised the Commission not to submit retroactive documentation, but instead, to seek approval of the pending Information Technology (IT) Plan covering fiscal year 1995 - 1998. The 1995 - 98 IT Plan, which encompasses the installation of a wide-area network, will cover the purchases made in prior years. The submission of the IT Plan will be made to the Division of Information Technology and Planning no later than April 10, 1996. Hopefully, approval will be granted thereafter.

IV. Minority Business Enterprise Reports Submitted Late

Our review of the minority business enterprise reporting requirements showed that six out of eleven quarterly reports were submitted to the Governor's Office late. These reports were submitted anywhere from one to eight months late. Section 11-35-5240(2) of the Code requires that quarterly progress reports be submitted no later than ten days after the end of each fiscal quarter.

We recommend the Commission submit the minority business enterprise quarterly reports in a timely manner.

Commission Response

The Commission agrees with this recommendation. Changes in personnel within the Procurement Office and the need to train staff on the minority business enterprise reporting contributed to the untimely submission of these reports. However, over the last 6-8 months, the Procurement Director has developed a software program for the extraction of minority procurement data directly from the procurement system. This new system will allow for the timely submission of the minority report

CONCLUSION

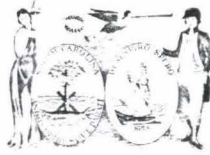
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Commission for the Blind in compliance with the South Carolina Consolidated Procurement Code.

The Commission has not requested procurement certification above the basic limit of \$5,000 allowed by the Procurement Code. Subject to the corrective action listed in this report, we recommend the Commission be allowed to continue procuring goods and services, consultant services, construction and information technology up to that level allowed by the Code.


Robert Aycock, IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

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RAYMOND L. GRANT
ASSISTANT DIRECTOR

April 2, 1996

Mr. Raymond L. Grant
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Ray:

We have reviewed the Commission's response to our audit report for July 1, 1993 - June 30, 1995. Also, we have followed the Commission's correction action during and subsequent to our field work. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Commission be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

A handwritten signature in cursive script that reads "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

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